

# The International Commission On Holocaust Era Insurance Claims And Subsidiary

Financial Report  
December 31, 2006

**McGladrey & Pullen**  
Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
The International Commission on  
Holocaust Era Insurance Claims  
Washington, DC

We have audited the accompanying consolidated statement of financial position of the International Commission on Holocaust Era Insurance Claims and Subsidiary (ICHEIC) as of December 31, 2006, and the related consolidated statements of activities, cash flows, and change in net assets for the year then ended which, as described in Note 1 to the financial statements, have been prepared on the basis of accounting principles generally accepted in Switzerland. These financial statements are the responsibility of ICHEIC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ICHEIC's financial statements, and in our report dated February 23, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the International Commission on Holocaust Era Insurance Claims and Subsidiary as of December 31, 2006, and the change in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in Switzerland.

*McGladrey & Pullen, LLP*

Bethesda, Maryland  
March 15, 2007

The International Commission On Holocaust  
Era Insurance Claims And Subsidiary

Consolidated Statement Of Financial Position  
December 31, 2006  
(With Comparative Totals For 2005)

(All amounts in thousands of U.S. Dollars)					
2006					
Assets	Unrestricted	Temporarily Restricted	Funds Held In Trust	Total	2005 Total
Cash and Cash Equivalents	\$ 18,112	\$ 32,582	\$ 18,352	\$ 69,046	\$ 123,390
Investments	-	12,118	16,159	28,277	100,900
Other Assets	746	-	-	746	2,006
	<u>\$ 18,858</u>	<u>\$ 44,700</u>	<u>\$ 34,511</u>	<u>\$ 98,069</u>	<u>\$ 226,296</u>
<b>Liabilities And Net Assets</b>					
Current Liabilities					
Accounts payable and accrued expenses	\$ 610	\$ 10,875	\$ 3,130	\$ 14,615	\$ 7,826
Advances from members	243	-	-	243	1,027
Current portion of commitments –					
Claims	-	-	15,500	15,500	43,943
Humanitarian	-	29,934	-	29,934	28,161
<b>Total current liabilities</b>	<u>853</u>	<u>40,809</u>	<u>18,630</u>	<u>60,292</u>	<u>80,957</u>
Long-term portion of humanitarian commitment	-	-	-	-	52,000
	<u>853</u>	<u>40,809</u>	<u>18,630</u>	<u>60,292</u>	<u>132,957</u>
Commitments and Contingencies (Notes 2 and 7)					
Net Assets	18,005	3,891	15,881	37,777	93,339
	<u>\$ 18,858</u>	<u>\$ 44,700</u>	<u>\$ 34,511</u>	<u>\$ 98,069</u>	<u>\$ 226,296</u>

See Note 1 regarding assets of the Bermuda Trust, not included above.

See Notes To Consolidated Financial Statements.

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Consolidated Statement Of Activities  
Year Ended December 31, 2006  
(With Comparative Totals For 2005)

	(All amounts in thousands of U.S. Dollars)				2005 Total
	2006			Total	
	Unrestricted	Temporarily Restricted	Funds Held in Trust	Total	
Receipts and Revenue:					
Interest income	\$ 6,757	\$ -	\$ -	\$ 6,757	\$ 7,034
Net assets released from restriction	24,729	(24,729)	-	-	-
Funds released from Trust	-	9,815	(9,815)	-	-
<b>Total receipts and revenue</b>	<b>31,486</b>	<b>(14,914)</b>	<b>(9,815)</b>	<b>6,757</b>	<b>7,034</b>
Expenses:					
Program services:					
Claims	1,809	-	-	1,809	3,092
Humanitarian	1,292	-	-	1,292	1,655
Commission	691	-	-	691	1,026
Appeals	2,170	-	-	2,170	1,544
Audit	116	-	-	116	581
Outreach	17	-	-	17	30
Close Down	401	-	-	401	-
Supporting services:					
General and administrative	1,229	-	-	1,229	1,267
<b>Total expenses</b>	<b>7,725</b>	<b>-</b>	<b>-</b>	<b>7,725</b>	<b>9,195</b>
<b>Change in net assets from operations</b>	<b>23,761</b>	<b>(14,914)</b>	<b>(9,815)</b>	<b>(968)</b>	<b>(2,161)</b>
Peer review audit fees reimbursed by Companies	(631)	-	-	(631)	(2,661)
Change in reserves for claims payments	-	-	80,443	80,443	87,623
Claims paid or reimbursed	-	(15,000)	(91,980)	(106,980)	(52,375)
Humanitarian payments	(20,541)	-	-	(20,541)	(34,163)
Reserve for Humanitarian commitments	-	(9,980)	-	(9,980)	1,064
Realized foreign exchange gains (losses)	134	-	4,186	4,320	(592)
Depreciation	(61)	-	-	(61)	(68)
Loss on disposal of assets	(35)	-	-	(35)	-
<b>Change in net assets</b>	<b>\$ 2,627</b>	<b>\$ (39,894)</b>	<b>\$ (17,166)</b>	<b>\$ (54,433)</b>	<b>\$ (3,333)</b>

See Notes To Consolidated Financial Statements.

The International Commission On Holocaust  
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Consolidated Statement Of Cash Flows  
Year Ended December 31, 2006  
(With Comparative Totals For 2005)

	(All amounts in thousands of U.S. Dollars)	
	2006	2005
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (54,433)	\$ (3,333)
Adjustments to reconcile change in net assets to net cash (used in) operating activities		
Depreciation	61	68
Loss on disposal of assets	35	-
Reserve for claims payments	(28,443)	(56,623)
Reserve for humanitarian payments	(50,227)	(34,732)
Changes in assets and liabilities:		
Decrease (increase) in:		
Other assets	1,167	(862)
Increase (decrease) in:		
Accounts payable and accrued expenses	6,789	3,366
Advances from members	(784)	(67)
<b>Net cash (used in) operating activities</b>	<b>(125,835)</b>	<b>(92,183)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales of investments	72,623	-
Purchase of investments	-	(97,145)
Purchase of property and equipment	(3)	(42)
<b>Net cash provided by (used in) investing activities</b>	<b>72,620</b>	<b>(97,187)</b>
<b>Cash Flows From Financing Activities</b>		
Member contributions	1,708	2,816
<b>Net cash provided by financing activities</b>	<b>1,708</b>	<b>2,816</b>
<b>Effects Of Exchange Rate Changes On Cash And Cash Equivalents</b>		
<b>Net (decrease) in cash and cash equivalents</b>	<b>(54,344)</b>	<b>(189,817)</b>
<b>Cash And Cash Equivalents</b>		
Beginning	123,390	313,207
Ending	<b>\$ 69,046</b>	<b>\$ 123,390</b>

See Notes To Consolidated Financial Statements.

The International Commission On Holocaust  
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Consolidated Statement Of Change In Net Assets  
Year Ended December 31, 2006  
(With Comparative Totals For 2005)

	(All amounts in thousands of U.S. Dollars)				2005 Total
	2006			Total	
	Unrestricted	Temporarily Restricted	Funds Held in Trust		Total
Net assets at beginning of year	\$ 13,933	\$ 43,785	\$ 35,621	\$ 93,339	\$ 97,119
Change in net assets from operating and non-operating activities	2,627	(39,894)	(17,166)	(54,433)	(3,333)
Unrealized foreign exchange (losses)	(263)	-	(2,574)	(2,837)	(3,263)
Equity contributions MOU companies	1,708	-	-	1,708	2,816
<b>Change in net assets</b>	<b>4,072</b>	<b>(39,894)</b>	<b>(19,740)</b>	<b>(55,562)</b>	<b>(3,780)</b>
Net assets, end of year	\$ 18,005	\$ 3,891	\$ 15,881	\$ 37,777	\$ 93,339

See Notes To Consolidated Financial Statements.

The International Commission On Holocaust  
Era Insurance Claims And Subsidiary

Notes To Consolidated Financial Statements

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**Note 1. Nature Of Activities And Significant Accounting Policies**

Nature of activities: The International Commission on Holocaust Era Insurance Claims (ICHEIC) was established, by the signing of a Memorandum of Understanding (MOU), in October of 1998 by the National Association of Insurance Commissioners in cooperation with several European insurance companies, (MOU Companies), European regulators, representatives of several Jewish organizations, and the State of Israel. ICHEIC is charged with establishing a just process that will expeditiously address the issue of unpaid insurance policies issued to victims of the Holocaust.

ICHEIC's operations are funded by contributions from member companies and settlements from certain restitution organizations. ICHEIC has no additional sources of funds or revenue, other than interest on investments and bank accounts, and annual dues of a nominal amount, which are recognized when due.

ICHEIC's wholly owned subsidiary, International Commission on Holocaust Era Insurance Claims LLC (ICHEIC, LLC) is a limited liability company incorporated in Delaware for the operations of the Washington, DC office of ICHEIC.

ICHEIC anticipates the completion of its primary mission of addressing unpaid insurance policies during the first half of 2007. At that time, ICHEIC's will be closed down. After that date, ICHEIC will continue to fund its humanitarian obligations and hold funds in reserve for liabilities and contingencies for a number of years thereafter.

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in Switzerland, whereby revenue is recognized when earned and expenses are recognized when incurred.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of ICHEIC, and its wholly owned subsidiary, ICHEIC, LLC. All material inter-company balances and transactions have been eliminated in consolidation.

Basis of presentation: The assets, liabilities and financial activities of ICHEIC are classified based on the existence or absence of imposed restrictions on the funds received. Accordingly, the net assets of ICHEIC are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to any imposed restrictions.

Temporarily restricted net assets - Net assets subject to restrictions imposed by the contributor on their use that may be removed either by actions of ICHEIC or the passage of time. Temporarily restricted funds include (A) funds received by ICHEIC through the Generali (Note 3), German Foundation (Note 2), and AWZ (Note 4) settlement agreements earmarked for humanitarian purposes; (B) funds provided by the German Foundation settlement for ICHEIC operating expenses; and (C) realized gains on temporarily restricted funds converted from Euro to U.S. Dollar; less amounts transferred to unrestricted to be used for humanitarian payments or ICHEIC operating expenses. At December 31, 2006, total temporarily restricted assets of \$44.7 million arising out of the contributions described above are restricted for humanitarian purposes.

Funds held in trust - Net assets that are held by ICHEIC in trust for the payment of claims. These funds include all settlement funds earmarked for the payment of claims.



The International Commission On Holocaust  
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Notes To Consolidated Financial Statements

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**Note 1. Nature Of Activities And Significant Accounting Policies (Continued)**

Investments: Investments consist of U.S. Government and government agency obligations and are reported at fair value as determined by quoted market prices. Changes in fair value are reported as gains or losses in the Consolidated Statement of Activities.

Bermuda Trust: The member companies of ICHEIC have contributed funds to a special purpose trust in Bermuda which is under the control of ICHEIC's Chairman. Under the trust deed, the Chairman of ICHEIC is designated the Protector of the trust in his personal capacity. An independent professional trustee holds the assets on behalf of the trust. The assets have not been consolidated with those of ICHEIC. The purpose of the trust is to assist in the resolution of insurance claims through ICHEIC and the payment of related administrative expenses. Any residual monies are to be distributed to Holocaust-related charities as approved by the Protector. The contributions to the trust were made in 1999 and amounted to approximately U.S. \$30 million. Income is accumulated. At December 31, 2006, the trust's funds amounted to approximately U.S. \$20.6 million.

Cash equivalents: ICHEIC considers all highly liquid investments purchased with an average maturity of three months or less to be cash equivalents. Cash equivalents consisted of cash, money market mutual funds, and fixed income investments of approximately U.S. \$69 million as of December 31, 2006.

Financial risk: ICHEIC maintains its cash in bank deposit accounts, which at times may exceed insured limits. ICHEIC has not experienced any losses in such accounts. ICHEIC believes it is not exposed to any significant financial risk on cash.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over their expected useful working lives, which are 6 years for furniture and fixtures and 4 years for office equipment. Property and equipment is included in other assets.

Advances from members: From time to time, ICHEIC receives advances from members for future peer review audit fees. These amounts are classified as current liabilities until the related audits are performed and paid.

Restricted and unrestricted receipts and revenue: Contributions and settlements received are recorded as unrestricted, temporarily restricted, or trust receipts, depending on the existence and/or nature of any donor restrictions.

All donor-restricted receipts are reported as an increase in temporarily restricted net assets or trust funds, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets and trust funds are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions or funds released from trust.

Interest income is recognized when earned.

Realized gains or losses on foreign currency transactions are recognized in the period the transactions occur.

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Notes To Consolidated Financial Statements

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**Note 1. Nature Of Activities And Significant Accounting Policies (Continued)**

Foreign currency translation: The financial statements are presented in U.S. dollars. ICHEIC has liabilities and long-term obligations in various currencies and holds its liquid assets in the best estimate of the currencies in which these obligations will be paid. Assets and liabilities denominated in currencies other than U.S. dollars are converted at rates of exchange prevailing at December 31, 2006. Non-U.S. dollar currency transactions are converted at the rates of exchange prevailing during the year and are reflected in the Consolidated Statement of Activities.

The currency translation adjustment arising on consolidation, which does not represent a realized gain or loss, is recorded directly to the Net Assets of ICHEIC.

Income taxes: ICHEIC has been advised that it does not have any Swiss or United Kingdom tax obligation. ICHEIC, LLC is a foreign corporation for U.S. tax reporting purposes.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in Switzerland. Accordingly, such information should be read in conjunction with ICHEIC's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

**Note 2. The German Foundation Agreement**

ICHEIC signed an agreement with the Foundation "Remembrance, Responsibility and the Future" ("Foundation") and the German Insurance Association ("GDV") (the "Agreement") on October 16, 2002, regarding the settlement of individual claims on unpaid or confiscated and not otherwise compensated policies of German insurance companies. To achieve this purpose, and to provide up to U.S. \$30 million towards certain of ICHEIC's operating expenses, the Foundation transferred to ICHEIC the sum of Euro 102,258,376 (the "Claims and Expenses Fund").

The Agreement also provided for a payment by the Foundation to the Humanitarian Fund of ICHEIC. A further transfer of Euro 178,952,160 was made for specified humanitarian purposes, some of which are at the discretion of ICHEIC (the "Humanitarian Fund").

These sums were received on October 17, 2002.

According to the agreement, the Claims & Expenses Fund is to be used:

- To fund 50% of actual ICHEIC operating expenses (as defined) from January 1, 2001, until termination (with a cap of U.S. \$30 million);
- For the payment of insurance claims –
  - To prefund German insurance companies for claims to be paid by them from October 16, 2002, in accordance with the Agreement and
  - To reimburse German member companies for ICHEIC claims that were paid by them prior to October 16, 2002.

The International Commission On Holocaust  
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Notes To Consolidated Financial Statements

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**Note 2. The German Foundation Agreement (Continued)**

Amounts released from the Claims and Expenses Fund for ICHEIC operating expenses totaled approximately U.S. \$3.3 million for the year ended December 31, 2006.

Any surplus in the Claims and Expenses Fund after all approved claims and costs have been met, shall be used for Holocaust related humanitarian purposes, at ICHEIC's discretion.

With the exception of U.S. \$30 million to be used for ICHEIC operating expenses, which is classified as temporarily restricted, the Claims & Expenses Fund is classified as Assets Held in Trust as ICHEIC does not exercise discretion over the payment of claims.

The German Foundation Agreement stipulates that the Humanitarian Funds are to be used:

- At ICHEIC's discretion, for the payment of claims against unknown or no longer existing insurance companies and their subsidiaries (known as "8A Claims", based on Section 8A of the Memo of Understanding which describes such payments);
- For the payment of claims on insurance policies whose proceeds were transferred to blocked accounts (blocked account claims);
- For the payment of the difference between the calculated value and the minimum payment as described in the Agreement (top up payments);
- At the discretion of ICHEIC, for the benefit of needy victims of the Holocaust and for other Holocaust-related humanitarian and educational purposes; and
- At the discretion of ICHEIC, for the payment of costs related to the administration of the funds.

In 2003, ICHEIC committed up to approximately U.S. \$132 million of the remaining Humanitarian Funds, to the extent available, to social welfare programs for needy Holocaust victims worldwide. These funds are being distributed over six years beginning in 2003; \$69.8 million was disbursed prior to December 31, 2006. ICHEIC has also committed approximately U.S. \$22.2 million for four programs operating Holocaust-related education programs; \$5.4 million of which was distributed prior to December 31, 2006.

No other commitments of Humanitarian funds have been made at this time.

**Note 3. The Generali Fund**

In November 2000, ICHEIC entered into an agreement with Assicurazioni Generali S.p.A. ("Generali"), a member company, regarding the payment of claims under the ICHEIC process and which required Generali to transfer the sum of U.S. \$100 million to ICHEIC to be used for the payment of claims on Generali's Holocaust-era insurance policies and for humanitarian purposes ("the Generali Deposit"). This sum (subject to certain adjustments) was transferred to ICHEIC on July 10, 2001.

By December 31, 2006, these funds have been substantially exhausted through the payment of Generali claims, including blocked account cases, which are deemed to be humanitarian claims payments.

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Notes To Consolidated Financial Statements

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**Note 4. AWZ Agreement**

In July 2003, ICHEIC entered into an agreement with member companies AXA, Winterthur Life Insurance Company and Zurich Life Insurance Company (the "Insurers"), regarding the payment of claims through the ICHEIC process and the provision of funds for humanitarian purposes. The Insurers provided a total of U.S. \$25 million to ICHEIC, U.S. \$7.5 million of which had been previously funded to the special purpose Bermuda Trust, for the payment of non-German claims for insurance policies issued by the Insurers to Holocaust victims (as defined by ICHEIC) and humanitarian purposes as defined under the Memorandum of Understanding. Any remaining balance of the U.S. \$9 million earmarked for claims payments after all claims have been paid or fully reserved will become available for humanitarian purposes. As of December 31, 2006, approximately U.S. \$1 million remain in unpaid offers made by these companies.

On the accompanying Consolidated Statement of Financial Position, these funds are included in Temporarily Restricted Funds, with the exception of U.S. \$1 million, which is classified in Trust.

**Note 5. Capital Contributions**

Capital Contributions are contributions made to fund ICHEIC by its members and related parties.

**Note 6. Operating Expenses**

ICHEIC's costs have been allocated in the Statement of Activities to the expense categories described below. ICHEIC's primary mission of addressing unpaid insurance policies issued to victims of the Holocaust will be substantially complete by March 2007. After that date, most of these costs will cease.

**Claims** is the cost of processing incoming claims/inquiries and includes the costs of the outsourced claims processing service provider, translations, and the toll-free telephone help lines. Approximately 91,000 claims/inquiries were received and eligible under the ICHEIC claims process by the ICHEIC deadline of December 31, 2003. Of the 91,000 eligible claims received, approximately 12,000 have been created by ICHEIC for technical reasons.

**Humanitarian expenses** include the costs of (a) processing the humanitarian claims payment programs under Section 8A of the Memo of Understanding; and (b) due diligence to enable ICHEIC to gain proper insight with respect to the distribution of the Humanitarian Funds and the oversight of programs funded by ICHEIC.

**Commission** includes ICHEIC members' expenses, mostly for travel and accommodation (not all members submit claims for reimbursement), the cost of Commission meetings, legal fees, directors and officers' liability insurance and the allocated costs of the Chairman and Chief Operating Officer, which allocation is based on their time spent on general Commission business.

**Appeals** is the cost of providing an appeal service to claimants whereby claimants have an opportunity to appeal the decisions made by the insurers in response to their claims.

**Audit** is the cost of auditing member companies' compliance with ICHEIC's standards, excluding fees payable to audit firms for peer review audits of MOU Companies.

The International Commission On Holocaust  
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Notes To Consolidated Financial Statements

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**Note 6. Operating Expenses (Continued)**

**Outreach** is the cost of ongoing communication with ICHEIC constituents via the web site, quarterly reports and ad hoc meetings.

**Close down** represents the costs of winding down the operation, including storage and disposition of documents, preparation of final reports and papers, employee severance and other costs associated with the termination of the operation.

**General and administration** includes the cost of ICHEIC's operations including personnel (except those dedicated to specified cost centers), office rent, accounting services, Chief Financial Officer, the financial audit, unallocated communications and other office expenses.

**Peer review audit fees (covered by capital contributions)** are the fees paid to audit firms to carry out peer review audits of MOU Companies.

**Claims (paid) or reimbursed** are the amounts paid to intermediaries for the purpose of funding claims against insurance companies.

**Net assets released from restriction** include (A) the amounts ICHEIC received from German Foundation Funds towards certain of its operating costs under the German Foundation Agreement (approximately U.S. \$3.3 million during the year ended December 31, 2006), and (B) amounts released from restriction for the funding of humanitarian programs and expenses (U.S. \$21.5 million during the year ended December 31, 2006).

**Note 7. Commitments And Contingencies**

ICHEIC leases certain buildings and equipment for use in its operations. The future minimum rental payments under these operating leases at December 31, 2006, are as follows:

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Year Ending December 31, 2007	<u>\$ 24,622</u>
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ICHEIC contributes to certain British defined contribution pension schemes, thus, no funding shortfall exists. No retirement benefits are offered to U.S. ICHEIC employees.